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SUBJECT: JAPAN MOVES TOWARD SURPLUS POWER BUYBACK SCHEME TO  
FOSTER SOLAR ENERGY

REF: A. 08 TOKYO 1848  
1B. TOKYO 219  
1C. TOKYO 476  
1D. OSAKA KOBE 34

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11. (SBU) SUMMARY: METI officials hope the Diet will approve a bill during the current legislative session introducing a feed-in-tariff (FIT)-like scheme to compel electric power companies to buy surplus solar photovoltaic (PV) power from residential generators. If approved, the surplus power repurchasing scheme will add to several GOJ incentives now promoting solar energy. The GOJ has considered a FIT program to promote residential installation of PV technology since mid-2008. However, the Cabinet's current legislative proposal caught many in industry and energy policy circles off guard. A METI official told emboffs the hard push to implement a FIT buyback scheme results from intense political pressure from various quarters for more vigorous policies to promote alternative energy and to encourage Japanese technological innovation. END SUMMARY.

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OVERVIEW OF JAPAN'S PROPOSED BUYBACK SCHEME  
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12. (U) Japan's Cabinet approved a proposal March 10 to amend Japan's Basic Energy Law to compel electric power companies to purchase surplus electricity generated by residential solar power generation. The bill is now before the Diet. According to METI New and Renewable Energy Office Director Shoji Watanabe, the buyback scheme proposes to fix the price for solar energy at around 49 yen/kWH, roughly double the amount companies currently pay under a voluntary purchase scheme introduced in 1992. Watanabe explained the repurchase scheme legislation guarantees a fixed price for ten years as an incentive for PV installation. Thus, an individual consumer who installs a PV power generator during the first year of the program would receive 49 yen/kWH for their surplus solar power for up to ten years. The 10-year repurchase price has a sliding scale, with rates dependent on when the household installs the PV panels. METI devised the

program to provide incentives for early investment in PV technology in order to bring down installation and generation costs.

**¶13.** (U) Watanabe explained the average Japanese household consumes 1,200 kWh/year of electricity. If this household installs a typical 2.1 million yen 3kW PV unit, the household could sell back 1,800 kWh/year in surplus electricity to the power company. Based on these projections, the household could expect to earn 900,000 yen from the FIT in the first ten years following installation. The household would also receive a 210,000 yen installation subsidy from METI in addition to whatever regional government benefit package may be available. He noted the Tokyo Metropolitan Government offers 300,000 yen for PV installation, which would make the net ten-year cost of installing a PV system to a Tokyo household 690,000 yen. However, the homeowner would also avoid paying an average of 288,000 in energy bills over the ten years, thereby further reducing the cost of the PV system to 402,000 yen. Assuming the household continues to sell power back to the electric company at the current price of 24 yen/kWh after the 10-year elevated buyback price expires, a household that invests in PV technology would see the investment pay for itself in just over 15 years.

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METI LOOKS ABROAD FOR EXAMPLES OF FEED-IN-TARIFFS

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**¶14.** (U) In mid-2008 METI began studying a feed-in-tariff along the lines of those in effect in Germany as part of a suite of measures to boost demand for photovoltaic energy. (NOTE: as reported in ref A, Japan has targeted a ten-fold increase in solar power generation by 2020. END NOTE.) Watanabe said

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METI's initial analysis concluded a German-style FIT would likely result in a 360 yen/month hike in what an average household pays for electricity because utilities would pass the additional expense of buying surplus energy along to consumers. METI's analysis also determined the buyback period under the German FIT, which fixed the price of PV electricity for 20 years, is excessive. As a result, Japan's proposed buyback scheme includes several departures from the German model, specifically: (1) it will only apply to PV electricity, not to wind, biomass, or other sources; (2) it only applies to surplus electricity generation from residential consumers, not to straight-to-grid generation; and (3) the buyback scheme is being implemented to complement--not replace--other tax incentives and subsidies designed to promote PV power generation (ref B).

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ANNOUNCEMENT CATCHES INDUSTRY AND POLICYMAKERS OFF-GUARD

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**¶15.** (SBU) On Feb. 24 METI Minister Toshihiro Nikai first announced the GOJ had resolved to implement a solar power repurchase scheme along the lines described above (after notifying Federation of Electric Power Companies head Shosuke Mori). The announcement caught many in Japan's energy policy community off-guard, including members of METI's Advisory Panel on Energy, which is a consortium of industry and academic experts commissioned by METI's Agency for Natural Resources and Energy (ANRE) to examine ways to promote alternative energy in Japan. The Committee had issued an "urgent proposal" in September 2008 warning a German-style FIT would be too costly. It urged policy makers instead to continue to expand PV electricity demand through research and development spending and installation subsidies, continued voluntary buyback, and expansion of Japan's Renewable Portfolio Standard (RPS) to require electricity companies to meet targets for renewable energy generation from a variety of alternative energy sources. At a hastily-convened meeting on Feb. 25, METI DG for Energy Conservation and Renewable Energy Hideo Hatou apologized to the Advisory Panel members

for not informing them of the decision prior to Minister Nikai's announcement. Hatou explained the measure was a "necessary industrial policy" to support solar power development and Japanese manufacturers of PV technology.

¶ 6. (SBU) Predictably, manufacturers of solar technology welcomed the GOJ's proposal. Toshishige Hamano, Sharp Corporation's representative director, told the advisory panel the buyback scheme is essential to promote widespread commercialization, to lower production costs, and to achieve the GOJ's ambitious targets for solar power generation. (NOTE: representatives of Sharp and other firms previously expressed hope Japan would implement a FIT scheme during discussions with Consulate Osaka/Kobe (ref C). The American Chamber of Commerce in Japan has also called for expanded incentives for households to install solar energy panels in its recent IT stimulus recommendations (ref D). END NOTE).

¶ 7. (U) Several experts, however, questioned the fairness and effectiveness of picking a winner in solar power. These experts queried Hatou on the impact on other policy reforms under consideration that intended to expand the use of alternative energy. Tsutomo Takei, CEO of Ennet Corporation, a small-scale private power supplier, was concerned the FIT scheme might unduly favor large-scale power companies who can pass the additional costs to consumers more easily. Shigehito Nakamura, managing director of the energy holding company and wind power developer Eureus Energy Holdings, questioned the GOJ's rationale for singling out PV electricity, arguing that enhancement of the Renewable Portfolio Standard law would enable more flexible expansion of alternative energy.

¶ 8. (U) Other advisory committee experts raised the potential burden on consumers. In addition, University of Tokyo

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engineering professor Kenji Yamaji raised a fairness issue, saying the policy would pass the additional cost of the buyback to all consumers while favoring only those affluent enough to install PV technology. METI's Watanabe told emboffs the impetus to move forward on the solar power buyback proposal without first securing broad consensus, and in spite of the advisory committee's recommendations, came directly from Minister Nikai following an almost daily Diet debate on the subject in late December. Watanabe said he hopes the bill will pass in the current Diet session, giving METI time to prepare the necessary administrative ordinances so that the buyback scheme can start in the Spring of 2010.

¶ 9. (SBU) COMMENT: METI's decision to move ahead on the proposal without first securing broader consensus is unusual. The manner METI made its proposal public reflects political pressure to move quickly to build Japan's solar power capacity. At the same time, a review of Diet discussions leading to Nikai's announcement reveals both ruling party and opposition party parliamentary calls for either adoption of the German-style system or a scheme more rigorous than METI's proposal. For instance, LDP Diet member Yasuhisa Shiozaki and other eco-oriented members of the Diet advocated a broader FIT along the German model, as did the New Komeito's Eda Yasuyuki. Meanwhile, the opposition Democratic Party of Japan's (DPJ) election platform includes a FIT scheme that calls for repurchase of wind and biomass power in addition to PV. DPJ parliamentarians Tetsuro Fukushima and Kenzo Fujisue have been particularly vocal in calling for broader measures to promote alternative energy. END COMMENT.

ZUMWALT